

PENNSYLVANIA RAILROAD COMPANY.

THE ANNUAL MEETING OF STOCK-HOLDERS AT CONCERT HALL.

The Report of the Board of Managers, Showing the Operations of the Great Corporation for the Year 1870.

This morning at 10 o'clock the twenty-fourth annual meeting of the stockholders of the Pennsylvania Railroad Company was held in Concert Hall. The attendance was large, and the proceedings of the greatest interest.

Mr. John W. Derbyshire moved that the Mayor, Daniel M. Fox, take the chair. This was agreed to.

The Mayor then called the assemblage to order, and announced the first business in order as the reading of the annual report by the Secretary, Joseph Lesley.

OFFICE OF THE PENNSYLVANIA RAILROAD COMPANY, PHILADELPHIA, FEB. 18, 1871.

To the Shareholders of the Pennsylvania Railroad Company:

Your directors have the pleasure to submit to you a very satisfactory report of the results of the business of the company for the past year. During that period the operations of the company have been very extensive, and have been attended with gratifying success.

THE EARNINGS

Of your Main Line and Branches were:—

Table with 2 columns: Category and Amount. Includes Freight, Passenger, and Miscellaneous sources.

Leaving net earnings for 1870 of \$6,211,621.67

The total amount of revenues compared with last year is:—

Table with 2 columns: Year and Revenue. Compares 1870 and 1869.

The changes in the sources of revenue are shown below:—

Table with 2 columns: Source and Change. Shows increases and decreases in various revenue sources.

The only item of income that shows a decrease is from freights, and this has occurred under an increased tonnage of 401,000 tons, and is mainly accounted for by the reduction of freight charges—without any legitimate object—during the past summer and autumn, by the New York lines, to a point much below the cost of transportation.

The gross revenues for 1870 are equal to \$48,971.25 per mile for the main line of railroad.

The whole number of passengers carried in 1869 was 4,229,363, and in 1870, 4,352,769, an increase of 123,406, or nearly 3 per cent.

The average distance travelled by each passenger was 31.65-100 miles, being 43-100 of a mile greater than in 1869.

The number of tons of freight moved (including 376,650 tons of fuel and other materials transported for the company) was 5,804,051, embracing 2,550,389 tons of coal. It was last year 5,402,991 tons.

The average charge per ton per mile upon freights, during the year, was 1.649-1000 cents, against 1.718-1000 cents last year, and 1.9-1000 the year previous; and per passenger, 2.49-1000 cents per mile, against 2.51-1000 cents last year, or an average decrease in freight charges of 9.8-1000 per cent., and in passenger charges of 8-1000 of one per cent. per mile.

The actual cost of operating your railroad, including branch lines, in 1870, was 59.15-1000 per cent. of its receipts.

The earnings of the Philadelphia and Erie Railroad in 1870 were:—

Table with 2 columns: Category and Amount. Includes Freight, Passenger, and Miscellaneous sources.

Total (nearly \$11,000 per mile of road) \$3,144,044.71

Amount brought forward \$29,655,396.36

And the expenses of operating these lines were:—

Table with 2 columns: Category and Amount. Lists various operating expenses.

Leaving a balance of credit to profit and loss of \$29,655,396.36

It will be noticed that this balance is the result of the business of the year, without bringing forward a similar surplus in 1869 amounting to \$463,533, and after charging to expense account the additional cost of substituting iron bridges on the main line of your road for those originally constructed of wood; the change of steel for iron rails; the cost of freight on the old Philadelphia and Columbia Railway purchased of the State, and the extension of the shops at Altoona; neither of which items of expenditures will add to the productive capacity of your railroad, but they may prevent serious interruptions to your traffic, and in time materially reduce the cost of operating the line.

The operations of the Pittsburgh, Fort Wayne and Chicago Railway, which was organized in 1867, and which is now under the management of the Pennsylvania Railroad Company, have been very successful, and have been attended with gratifying success.

The net revenues of the Pennsylvania Railroad Company from investments in other lines, it is confidently expected, will, after 1871, yield an amount fully sufficient to meet the interest upon the whole mortgage indebtedness of the company—a source of income which may be expected to continue and annually increase.

It is not the intention of the directors that the mortgage indebtedness of the company shall be increased beyond the thirty-five millions of dollars already authorized, and they consider that the other assets of the company, after exhausting this issue, will be ample to meet any enlargement of their works that may be required to comply with the public demand for transportation facilities.

The value of the existing Sinking Fund established for the payment of the second mortgage bonds will not only be sufficient to cancel the bonds issued under it when due, but a balance will be left which, if judiciously administered, will also pay off at maturity not only the first mortgage bonds, but also those of the general mortgage; while the lien of the State upon the Philadelphia and Columbia Railway is being paid off by the annual reductions of its principal, in accordance with the act of Legislature, to an extent which will extinguish it before its maturity.

From this summary the shareholders will notice that the interest upon the mortgage debt of the company, after 1871, may be provided for from the interest upon instalments outside of your railroad, and that this debt may be all cancelled at maturity by the existing sinking fund, leaving the net earnings of your railroad, which the past year amounted to \$6,211,621.67 (after meeting the annual payment of \$400,000 to the State), for the stockholders.

The Treasurer's statement, annexed to this report, will exhibit the condition of the finances of the company at the close of the year. The discount allowed upon the large amount of general mortgage bonds sold in this country and Europe, to take up the company's debentures and meet its other obligations, has been met, as heretofore, by the net revenues of the company for 1870, instead of charging this item, as is usual with other companies, to the cost of the investment.

To meet the demands upon the treasury during 1871, to complete the works in progress that are deemed essential to protect the existing interests of the company, and pay the debentures amounting to \$1,100,000 falling due in July, the board propose to give to each shareholder the privilege of subscribing for one share of stock for every six that may be standing in his name upon the books of the company on the 30th of April, at par. Under the terms of the general mortgage there can be issued only one million one hundred and ninety-two thousand dollars of these bonds in addition to those already sold, until the debentures due in July are cancelled, and further payments are made upon the State debt and prior mortgages upon its line, when an additional issue equal to such reduction and payments may be made. The net revenues of the company in 1870 were in excess of the amount required to meet dividends of 10 per cent. upon the proposed increase of capital, and there is no reason to expect less favorable results in the future. To enable the company to provide for this distribution of stock, the directors accepted the provisions of the General Act of the Assembly of Pennsylvania, approved December 29, 1869, authorizing the increase of the capital of all railroads to 20 per cent.

The directors, in their last annual report, referred to the motives which induced them to depart from their original policy in extending their direct control of railways west of Pittsburgh. As this change has been the subject of much public comment, the board will be pardoned if they again briefly refer to it. In consequence of the failure of the mixed system of canals and railroads of the Commonwealth of Pennsylvania, and their connecting lines beyond Pittsburgh, to attract a reasonable share of the traffic between the East and West, or successfully compete with the avenues built by New York, all the lines of railway that were first built in the West to reach the Atlantic market were directed towards Buffalo as the then best and cheapest route to the East, leaving to this company, if it entered the list of competitors for this distant traffic, to endeavor without delay to secure in its interest railway connections with the commercial centres of the West as feeders to

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your main line. Sensible of the prejudice against large corporations since the failure of the United States Bank, the policy of this company was first directed to the procuring of these connections by securing the organization of the independent railway companies, and their construction by supplementary assistance as was required to effect this necessary object under contracts for the mutual interchange of business. This course it was confidently expected would meet the objects desired without involving this company in the direct management of distant enterprises.

It however soon became evident, after securing such feeders, that their success in diverting the traffic of the West from the channels it had become accustomed to follow stimulated the older rival interests to endeavor to overcome it by obtaining the control of such feeders with a view to embarrass our business and augment their own. The efforts proved nearly successful, and were only prevented by promptly meeting the exigency by securing the absolute control of these lines for this company. The board think that they would have been derelict in their duty if they had yielded to timid counsels and permitted this opportunity to secure their object to pass unimproved. This control was effected by the lease for nine hundred and ninety-nine years of the Columbus, Chicago and Indiana Central Railway, and of the Little Miami Railroad, through the Pittsburgh, Cincinnati and St. Louis Railway Company, which your company controls by the ownership of a large majority of its shares; and the direct lease of the Pittsburgh, Fort Wayne and Chicago, and the Erie and Pittsburgh Railways. Under the lease of the Pittsburgh, Fort Wayne, and Chicago Railway this company became possessed also of one-half the shares of the Indianapolis and Vincennes Railroad Company, which has a lease of the old Terre Haute, which had a lease of the old line between Terre Haute, Alton, and St. Louis. The Pennsylvania Railroad Company had previously acquired a majority of the shares of the new line between Terre Haute and St. Louis via Vandalia, thus completing our connections with St. Louis.

Under the amended lease of the Columbus, Chicago, and Indiana Central Railway this company felt morally bound to assume its obligations to the Indianapolis and Vincennes Railroad Company, of which it is now nearly the sole shareholder. This enterprise is at present unprofitable, but will ere long prove a productive work, and when extended to Cairo, the grading of which is in a great measure finished, it will become a line of national importance.

It is not proposed nor is it desirable to manage these lines in a manner to divert traffic from its natural markets or channels, but solely with a view to secure to this company its fair share of the business of the West, which it was found impossible otherwise to obtain.

The result of the operations of all these lines for 1870 shows a small profit, which under judicious management must annually increase. Their net profits for 1871 it is confidently expected will be very satisfactory.

With a view to give greater simplicity and efficiency to the management of this large Western interest, and as far as practicable return to our former policy, a charter was obtained from the Commonwealth of Pennsylvania incorporating the Pennsylvania Company, to which all the interests above-mentioned of the Pennsylvania Railroad Company will be transferred on the first of March next, and \$8,000,000 of the preferred capital stock of the Pennsylvania Company received therefor, which amount covers fully all of our expenditures in this connection. The whole capital of the Pennsylvania Company will consist of \$8,000,000 of preferred and not exceeding \$4,000,000 of common stock. All the profits of the corporation during 1871 after meeting the obligations of the lines leased are to be used by the Pennsylvania Company in equipping the railroads transferred to it. After 1871 the preferred shares of this company will yield at least 6 per cent. on their par value.

In addition to the interests of the company in the West to be transferred to the Pennsylvania Company, it still holds twenty-two thousand shares (a large majority) of the stock of the Cleveland, Mt. Vernon, and Delaware Railroad Company—whose line is partly finished and the remainder in progress under the judicious supervision of its President, Judge Hurd, of Mt. Vernon, Ohio. This interest was received with the lease of the Pittsburgh, Fort Wayne, and Chicago Railway, and promises to become a profitable investment; also one million and forty-nine thousand dollars of the bonds of the Newport and Cincinnati Railroad bridge, now being erected to connect the Little Miami Railway with the Kentucky system of railroads; four millions four hundred and forty-six thousand dollars of the General Mortgage Bonds of the Pittsburgh, Cincinnati, and St. Louis Railway Company, one million seven hundred and sixty-six thousand dollars of the Second Mortgage Bonds of the Terre Haute, Vandalia, and St. Louis Railway Company; and eight hundred and seven thousand dollars of the First Mortgage Bonds of the Cincinnati and Muskingum Valley Railroad Company—the line of which is built from Zanesville to Morrow, 132 miles, and is being extended from Zanesville 16 miles to Dresden, on the Pittsburgh, Cincinnati, and St. Louis Railway. The interest upon all these bonds (amounting to \$8,068,000) will be duly met from the revenues of these works.

This company also holds a majority of the shares of the Charters Railway Company, whose line between Pittsburgh and Washington is now approaching completion, and must soon become a profitable investment.

The liabilities of the Pennsylvania Railroad Company in the West, as guarantors, arise wholly under the leases that it has made or guaranteed, and extend to four millions of dollars of the first mortgage bonds of the Grand Rapids and Indiana Railroad Company—as required by the terms of the lease of the Pittsburgh, Fort Wayne and Chicago Railway. The Grand Rapids and Indiana Railroad Company, besides its railway, holds lands pledged for the payment of these bonds valued at least at eight millions of dollars, and they cannot, therefore, reasonably become a charge upon this company, even if the railway should prove unproductive—an expectation which is not justified by the revenues of that portion of the line already built; to the bonds of the Indianapolis and Vincennes Railroad Company, amounting to three millions one hundred and fifty thousand dollars upon 114 miles of road, which will doubtless earn, after 1872, ample revenues to meet its interest and provide for the principal when due; to the interest upon thirty-six millions seven hundred and twenty-four thousand and fifty-two dollars of the bonds of the Pittsburgh, Fort Wayne, and Chicago Railway Company and the Erie and Pittsburgh Railroad Company; and to fifteen million eight hundred and twenty-one thousand

dollars of the bonds of the Columbus, Chicago, and Indiana Central Railway Company. These works, as a whole, now yield net revenues more than sufficient to meet the interest upon all the obligations mentioned, while the operation of the sinking fund of the Pittsburgh, Fort Wayne, and Chicago Railway Company, the terms of which have been faithfully complied with and the semi-annual amount due charged to running expenses, will pay off the whole of its mortgage indebtedness, amounting to \$13,563,000, before the bonds are due.

From this general review of the interests of the company in the West, it will be perceived that, while securing to the company and this city uninterrupted communication with the trade centres of that region on and east of the Mississippi river, the board has at the same time also effected the means required to secure that object, so that they will yield satisfactory direct returns to this company.

The difficulties encountered by this company in securing harmonious railway connections with the West have also been met, in its efforts to open communications with the capital of the Union with the Northern Central Railway, and your road have formed the most direct route of travel to and from the North and Northwest.

The Northern Central Railway Company fell for a time under the control of the presidents of the Baltimore and Ohio and the Philadelphia and Reading Railroad Companies, who represented interests adverse to those of this company, rendering the object we desired of no easy accomplishment. During the monetary panic in Baltimore, however, immediately after the election of President Lincoln, the interest of the first-named party and many other shareholders in the Northern Central Company was thrown upon the market and immediately taken up by this company. The remaining shares required to make a majority of the stock of the company were purchased in London. This arrangement secured to this company a satisfactory connection with Baltimore; and to reach Washington the Baltimore and Ohio Railroad had still to be used. Every effort to obtain reasonable terms connecting our route with the national capital failed. Neither the sale of through tickets, the right to check through passenger baggage or to run through trains would be yielded, while the rates demanded upon freight passing over this line were quite prohibitory. These disadvantages were submitted to until the Baltimore and Ohio Railroad Company determined to extend a branch of their line to Pittsburgh, when further forbearance, it seemed, would be construed into weakness, and steps were at once taken under the auspices of the Northern Central Railway Company to build an independent line from Baltimore to the Potomac, at Washington. This road is now under construction, and will be immediately extended by a tunnel under Baltimore to the Northern Central Company's Depot, and thus open to the capital of the Union direct and uninterrupted communication with the North, Northwest and Northeast.

The products of the anthracite coal fields and the white pine lumber regions of Pennsylvania consumed in Washington and vicinity, that have heretofore been excluded from the Northern Central Railway by the exaction of rates to will, when this road is completed, furnish a large and increasing demand to that line. To make this enterprise complete arrangements have been made to extend the road across the Potomac, through Alexandria, to a junction with the Richmond, Fredericksburg, and Potomac Railroad northeast of Fredericksburg, thus forming a direct and continuous line of railway between all important points in the Southern Atlantic States with those of the North and East.

On reaching the Richmond, Fredericksburg and Potomac Railway, however, we unexpectedly found that the policy which has heretofore governed most of the seaboard railroads south of New York, a policy which belongs to the past and which we trust will soon be abandoned as inconsistent with the interests of the public and permanent interests of the shareholders of that company, and traffic be permitted to reach its destination and market whenever it will leave margin of profit to the transporter.

The privilege secured to the shareholders of the Harrisburg and Lancaster Railroad Company, under the lease of their railroad to the Pennsylvania Railroad Company, was par into the shares of the Pennsylvania Railroad Company, terminated on the twentieth day of December last, leaving 7056 shares, equal to \$352,800 of the capital stock of that company, still in the hands of individuals, upon which semi-annual dividends of three and a half per cent. have been guaranteed by this company.

The gradual alignment of the old Philadelphia and Columbia Railway is still in progress, and will be continued until the whole line is brought to the standard of modern railroads. That portion of the line between this city and Steamboat Station in Chester county, where the most numerous and abrupt curves were laid, will be rebuilt and ready for use by the autumn of 1872. Grading upon this and other portions of the main line at points best suited for the purpose has been commenced for a third track to avoid the vexatious detentions that now occur in passing trains in the same direction, travelling at different rates of speed.

There has not been much progress made by the Allegheny Valley Railroad Company towards the extension of its railroad (known as the "Low Grade Railway") to the Philadelphia and Erie Railroad at Driftwood, except its relocation under the direction of John A. Wilson, Esq., Chief Engineer. His survey demonstrates the entire practicability of continuing a maximum gradient of eighteen feet per mile on straight lines from Columbia, Lancaster county, to near the summit of the Allegheny Mountains, and thence reaching the tunnel under the mountain by a short exceptional gradient of only thirty-six feet per mile, in favor of the heavy grade. The descent from the mountain to the Allegheny river is accomplished with a maximum gradient of sixteen feet per mile. We here have a line crossing the rugged Allegheny Mountains at an extreme elevation of only 1440 feet above tide water, with lower gradients than are found necessary in passing the plains of the Mississippi Valley. Upon such a line, when completed, freights in large quantities may be moved at one cent per ton per mile with a sufficient margin of profit to the transporter. This rate may be drawn to the line all the traffic south of the lakes which now seeks the New York Canal.

The main object in the organization of the Pennsylvania Railroad Company was to promote traffic between this city and the West. This object has been kept steadily in view, and is not inconsistent with the best interest of the shareholders. It was confidently expected on the completion of your railway that the enterprise and capital of the citizens of Philadelphia would have been attracted in marketing the products brought to their doors, and the means fur-

nished to distribute them to points of consumption. But it soon became evident that this could not be depended upon, and that our cars must pass to New York to meet purchasers of the products or the business of the company would become dwarfed to that of a second-class railroad—a fate which the interests of the shareholders would not permit.

To remedy this deficiency, this company, at an early period, offered to join the citizens or corporate authorities in establishing lines of steamers between this port and Liverpool, but without eliciting any favorable response until the present time, when the required stock subscription to such a line has been made. The success of the project now depends upon the purchase of one and a half millions of the bonds of the steamship company guaranteed by this company. The board has agreed to take a majority of the stock of this company not exceeding \$400,000, and make this guarantee, and now submit their action for your approval. In the success of this enterprise the board has the fullest confidence, and it may be stated that the delay that has occurred in the organization of the line is not without its compensating advantages, as it will enable the company to profit by the very great increase in the rates of freight within the last ten years in the construction of steamers and their machinery, which have rendered almost obsolete steamships built previous to that date.

Even with the aid of this line of steamships, the tonnage capacity of your railway will be far in advance of the ability of this city to market, and the surplus must continue, as heretofore, to seek New York and other cities. In the adjustment of rates of freights from and to the West, the differences due to the shorter distance to Philadelphia have always been maintained. This discrimination, however, depends altogether upon the action of your board for the time being; but arrangements may be made by the corporate authorities of Philadelphia by which these differences will be permanently adhered to.

Your directors have had under consideration for some months the propriety of leasing the railroads and canals of the joint companies between Philadelphia and New York, but have not as yet come to a satisfactory conclusion in relation to this very important question. The principal object desired by this company is to secure the facilities for the accommodation of the large traffic that we can send to Jersey City, and its prompt delivery at that point. These joint companies have been unable or unwilling to give us the facilities desired, and our business is consequently restricted in its development, and the terminal expenses unnecessarily increased. The effect of such a lease will not be detrimental to the interest of this city, as it is intended to maintain the discrimination in rates of traffic that has always existed in her favor, while its increased capacity of transport of your company must be material if the lease is obtained upon satisfactory terms. The rate at present demanded is greater than the joint companies have derived from the net profits of their lines for some years.

Your Directors take much pleasure in acknowledging their indebtedness to the General Superintendent of the Pennsylvania Railroad, A. J. Cassatt, Esq., and his assistants, for the freedom from serious accidents on the road during the year, and for the very satisfactory reduction that has been made in the cost of operating the line, notwithstanding the increase of its tonnage. They also mention with commendation the success of the General Superintendent, W. A. Baldwin, Esq., of the Philadelphia and Erie Railroad, in the management of his line under the extremely low rates that it has been compelled to accept during the year. To the General Manager of our leased lines beyond Pittsburgh, J. N. McCullough, Esq., we are especially indebted, for the very satisfactory profits that have been realized from the railroads committed to his charge, and the low rates upon through freights that have prevailed during a larger portion of the last season.

Respectfully submitted,
By order of the board,
J. EDGAR THOMSON, President.

The Business of the Meeting.

The Secretary read, in addition to the report of the managers, the Treasurer's statement, which exhibits the condition of the company at the close of the year, and the receipts and disbursements of the company, and the following resolutions:

Resolved, That the report of the Board of Directors for the year 1870 be and it is hereby accepted by the stockholders, and that it be published in pamphlet form.

Resolved, That the act entitled "An act to authorize corporations to increase their bonded obligations," passed at the session of the General Assembly, December, A. D. 1869, be and it is hereby accepted by the stockholders of this company, and that the acceptance of the act be and it is hereby accepted by the stockholders, and their action thereunder, be and it is hereby ratified and confirmed.

Resolved, That the action of the Board of Directors, in agreeing to subscribe for one million of capital stock of the American Steamship Company of Philadelphia when organized, and in agreeing to endorse the constitution and by-laws of that company, in pursuance of authority conferred by law, be and the same is hereby ratified and confirmed.

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